

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2000-730

October 16, 2000

EASTERN MAINE ELECTRIC COOPERATIVE, INC.
Application for Approval of Issuance
of Securities (§902) (\$1,050,000)

ORDER APPROVING
ISSUE OF SECURITIES

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

I. SUMMARY

On August 29, 2000, Eastern Maine Electric Cooperative (EMEC or the Company) filed with the Commission an application for approval to enter into a loan agreement with the National Rural Utilities Cooperative Finance Corporation (CFC). EMEC proposes to borrow an amount not to exceed \$1,050,000 from CFC for four (4) years at either a fixed or variable CFC offering rate to be determined at closing. This Order approves EMEC's request.

II. BACKGROUND & DECISION

This request is one component of EMEC's three-part plan to improve its cash flow over the next four years. Improved cash flow will enable EMEC to maintain its distribution system and meet its operating expenses while minimizing rate impacts on customers. The other two components of EMEC's plan include the amendment and extension of an existing \$3.0 million unsecured revolving line of credit from CFC (approved concurrently in Docket No. 2000-731) and a \$400,000 base rate increase approved in Docket No. 2000-491. EMEC's petition states that the three pieces of its plan are completely integrated and that if one piece changes, the other two pieces must also be changed. The Company stated that in the absence of the proposed financings, the base rate increase component of the plan would have risen from \$400,000 to "at least \$750,000" and therefore its customers will benefit by roughly \$350,000 with our approval.

In connection with a previous \$15 million loan from CFC, associated with the Seabrook nuclear power station, EMEC was required to deposit 7% of the loan amount, or \$1,050,000, with CFC in "Loan Capital Term Certificates" or LCTC's. This deposit amounted to being cash collateral that was required by CFC due to EMEC's then weakened financial condition. The original agreement called for the return of the LCTC's over the last three years of the Seabrook loan on a schedule of roughly \$800,000 in 2003, \$150,000 in 2004 and \$100,000 in 2005. In order to boost EMEC's cash flow over the next several years CFC has agreed to lend EMEC an amount equivalent to the LCTC's essentially using them as collateral. EMEC can request individual drafts up to the total \$1,050,000 over time to fund either operating or capital expenditure needs. All principal amounts will be paid in full four years from the date of closing regardless of when individual drafts are made. Although the loan is unsecured, the agreement states that when the LCTC's are released on roughly the schedule noted above, the cash will be applied to the outstanding balance of the new loan.

EMEC is required to pay interest only on outstanding principal balances and the Company has requested approval to use its own discretion when selecting an interest rate. CFC has offered EMEC the choice of a long-term variable rate (with no rate cap), which was

recently 8.10% or a 4-year fixed rate of 8.45%. These rates fluctuate weekly and EMEC prefers to choose the rate at the time of closing. Recent history shows the 4-year CFC fixed rate has ranged from 5.90% to 9.00% between January 1999 and September 2000, while the CFC long-term variable rate has ranged between 5.75% and 8.10% over the same period.

The Commission has generally expressed a preference for fixed rate financing as opposed to variable rates for long-term debt issuances. This transaction, however, is more of a medium-term issuance, and even if EMEC chose a variable rate initially, it has the option to convert to the prevailing CFC fixed rate at any time without penalty or fee. For these reasons, we encourage, but will not require, EMEC to consider the fixed rate options offered by CFC for this transaction. If EMEC opts for the variable rate, we expect that the Company will closely monitor CFC's fixed and variable interest rates. We will also require EMEC to file quarterly reports with the Commission showing both the then current interest rates it is paying as well as the then current fixed rates offered by CFC for the remaining term of the loan.

Pursuant to an Amended Delegation Order dated January 9, 1996, in Docket No. 94-401, the Commission delegated to the Director of Finance pursuant to 35-A M.R.S.A. § 107 (4), the authority to grant the Approval of Stocks, Bonds and Notes by the Public Utilities Commission, Chapter 9, 35-A M.R.S.A., in those circumstances that involved the approval of Maine Municipal Bond Bank (MMBB), Rural Utilities Service (RUS), National Rural Utilities Cooperative Finance Corporation (CFC), Rural Telephone Bank (RTB) and CoBank, ACB (CoBank) financing applications by telecommunication and electric utilities. The approval of the Director of Finance shall be in the form of an Order, copies of which shall be maintained in the files of the office of the Administrative Director.

Having reviewed the application of the Company, together with data provided in support of it, it is the opinion of the Commission that the proceeds of the issuance of the securities are required in good faith for the purposes enumerated in 35-A M.R.S.A. § 901. In approving this securities issue, consistent with normal practice and pursuant to 35-A M.R.S.A. § 902(4), the Commission does not imply approval of the Company's capital needs, capital costs or capitalization ratio for rate making purposes, nor does this Order limit or restrict the powers of the Commission in determining or fixing any rate.

Accordingly, pursuant to the Amended Delegation Order dated January 9, 1996, in Docket No. 94-401, it is:

O R D E R E D

1. That Eastern Maine Electric Cooperative, Inc. (EMEC) is authorized to issue securities to the National Rural Utilities Cooperative Finance Corporation (CFC), as set forth in its application, in a sum not to exceed \$1,050,000 to be used solely for the purposes described in its filing at the prevailing fixed or variable CFC loan rate, with a final maturity not to exceed four (4) years from the date of issuance.
2. That EMEC report to the Director of Finance, in writing its doings pursuant to this Order within 60 days of the date of closing of the loan.
3. That if at any time the interest rate on this loan is a variable rate, that EMEC shall report both the existing variable interest rate on the loan and the prevailing fixed rate available from CFC as of the end of every calendar quarter starting with December 31, 2000.

4. That a copy of this Order be mailed to interested parties and this Docket be closed.

Dated at Augusta, Maine, this 16th
day of October, 2000.

BY ORDER OF THE ACTING DIRECTOR OF FINANCE

Richard M. Kania
Acting Director of Finance

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 30 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Civil Procedure, Rule 73, et seq.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.